

Message Text

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LIMDIS

E.O. 11652: GDS

TAGS: EFIN, TU

SUBJECT: EXIMBANK POSITION

REFERENCE: ANKARA 2213

BEGIN SUMMARY. EXIMBANK CHAIRMAN MOORE TOLD FINANCE MINISTER MUEZZINOGLU THAT BANK VALUES CLOSE AND FRIENDLY RELATIONSHIP WITH TURKEY, HAS CONFIDENCE IN LONG-TERM CONFIDENTIAL

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FUTURE, WILL SEEK CLEARER UNDERSTANDING OF ECONOMIC SITUATION AND BALANCE OF PAYMENTS OUTLOOK, AND FOLLOW CLOSELY RESULTS OF STABILIZATION PROGRAM. (SIMILAR LINE CAN BE TAKEN BY EMBASSY IN RESPONDING TO PRESS INQUIRIES ON EXIM REACTION TO STANDBY, ON AN IF-ASKED BASIS.) CHAIRMAN EXPRESSED DISAPPOINTMENT AT FAILURE SO FAR TO CONCLUDE SHORT-TERM DEBT RESTRUCTURING WITH EXIM AS A START ON REGULARIZATION OF TRADE ARREARS AND OTHER PAST DUE OBLIGATIONS. EMBASSY'S SUGGESTION IN REFTTEL OF VISIT (NOT BROACHED WITH MINISTER) IS WELCOMED, BUT FELT PREMATURE IN ABSENCE OF RESOLUTION OF ARREARS. END SUMMARY.

1. EXIMBANK FULLY APPRECIATES THE SERIOUS PROBLEMS FACING TURKEY AND, PARTICULARLY, THE NEED FOR FRESH ASSISTANCE AND RESTRUCTURING OF SHORT-TERM DEBT. THE SIGNING OF THE LETTER OF INTENT BY THE FINANCE MINISTER FOR THE

IMF STANDBY ON MARCH 23 IS SEEN AS A FIRST STEP IN THE RIGHT DIRECTION.

2. WHILE EXIMBANK REALIZES THE NEED FOR IMMEDIATE ACTION, THE EMBASSY'S SUGGESTION FOR A VISIT BY THE CHAIRMAN DOES NOT SEEM APPROPRIATE AT THIS TIME. BY ITS CHARTER AND LEGISLATIVE REQUIREMENTS, EXIMBANK IS NOT THE PROPER U.S. INSTRUMENT OR AGENCY TO PROVIDE THE TYPE OF BALANCE OF PAYMENTS ASSISTANCE OR PROGRAM LOANS THAT COUNTRIES IN ECONOMIC DIFFICULTY REQUIRE AS NOTED REFTEL. TURKEY'S VERY LARGE SHORT-TERM ARREARAGES TOGETHER WITH THE DLRS 1 MILLION IN CLAIMS ALREADY PAID BY EXIMBANK OUT OF A POTENTIAL TOTAL OF DLRS 20 MILLION AND SOME DELINQUENCIES ON DIRECT CREDITS DO NOT PROVIDE THE CONDITIONS FOR A FINDING OF REASONABLE ASSURANCE OF REPAYMENT AS REQUIRED BY LAW. NOR IS EXIMBANK THE PROPER AUTHORITY.

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TY FOR REVIEWING AND STAMPING A SEAL OF APPROVAL ON A COUNTRY'S STABILIZATION PROGRAM. IT DOES NOT SEEM LIKELY THAT A SMALL GESTURE BY EXIMBANK WOULD BRING FORTH SIGNIFICANT LENDING BY COMMERCIAL BANKS AS LONG AS THEY HAVE OUTSTANDING PROBLEMS.

3. MEETINGS WITH THE TURKISH FINANCE MINISTER AND OTHER TURKISH OFFICIALS, AS DESCRIBED BELOW, INDICATED A GREATER DEGREE OF OPTIMISM ABOUT IMMEDIATE RESOLUTION OF THEIR PROBLEMS THAN SEEMS WARRANTED. THE AIM, APPARENTLY, IS TO WIPE AWAY THE DLRS 2.8 BILLION SHORT-TERM ARREARAGES WITH DEBT RESTRUCTURING, ROLL OVER CLDS, AND SEEK NEW CREDITS. THIS IS A TALL ORDER AND WILL LIKELY TAKE MUCH MORE TIME AND NEGOTIATIONS THAN ENVISIONED AT PRESENT BY TURKISH AUTHORITIES.

4. IT SEEMS PRUDENT, THEREFORE, FOR EXIMBANK TO GET ALL THE FACTS, EXAMINE THEM, AND PROCEED CAUTIOUSLY SO AS TO FIT ITS ACTIONS INTO THE TOTAL PICTURE. EXIMBANK FELT IT WAS MAKING A VERY POSITIVE GESTURE FOR RESTRUCTURING THE SHORT-TERM SUPPLIER CREDITS ON THREE-YEAR TERM, BUT THIS WAS REJECTED BY GOT.

5. THE PARAGRAPHS BELOW FURTHER EXPLAIN EXIMBANK'S POSITION AND GIVE REPORTS OF MEETINGS WITH EXIM IN WASHINGTON.

6. AT A MEETING WITH CHAIRMAN MOORE MARCH 23 FOLLOWING THE SIGNING OF THE LETTER OF INTENT FOR THE IMF STANDBY,

MINISTER MUEZZINOGLU STATED THE MOST IMPORTANT PROBLEM FACING TURKEY IS THE SHORT-TERM DEBT BURDEN. THIS AMOUNTS TO DLRS 2.8 BILLION, WHICH INCLUDES THE TRADE

ARREARAGES FOR GOODS ALREADY IMPORTED, OVERDUE PETROLEUM PAYMENTS, CENTRAL BANK ARREARAGES, AND PAYMENTS DUE ON BANKERS ACCEPTANCES. THE CONVERTIBLE LIRA DEPOSITS ARE CONFIDENTIAL

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EXCLUDED FROM THE DLRS 2.8 BILLION TOTAL. ALL OF THIS OVERDUE DEBT (EXCLUDING CLDS), HE EXPECTED TO BE RE-STRUCTURED WITH A SEVEN-YEAR REPAYMENT TERM, INCLUDING A THREE-YEAR'S GRACE PERIOD. INTEREST WOULD BE PAID DURING THE GRACE PERIOD.

7. CONVERTIBLE LIRA DEPOSITS, ALL OF WHICH CARRY THE GOVERNMENT'S GUARANTEE OF EXCHANGE CONVERTIBILITY, WOULD BE TREATED IN A DIFFERENT MANNER. AS THEY FALL DUE, THE DEPOSITORS WOULD BE EXPECTED TO ROLL THEM OVER FOR TWO YEARS. THE LEVEL OF CLDS ON MARCH 1, 1978, APPROXIMATELY DLRS 1.9 BILLION, WOULD BE FROZEN. NO NEW AMOUNTS ABOVE THIS LEVEL WOULD BE ACCEPTED.

8. THE MINISTER SAID HE PLANNED TO MEET MARCH 24 IN NEW YORK WITH ROCKEFELLER OF CHASE AND PAGE OF MORGAN GUARANTY. GOT OFFICIALS SEEMED OPTIMISTIC ON PROSPECTS FOR SETTLEMENT OF ARREARAGES WITH COMMERCIAL BANKS ON SEVEN-YEAR TERM INCLUDING THREE-YEAR'S GRACE. MINISTER SAID HE UNDERSTOOD BANKS WERE PREPARED TO DO THIS. CANEVI HAD INDICATED PREVIOUSLY THAT IMMEDIATE SERIOUS BARGAINING UNLIKELY, UNTIL NEGOTIATING STRATEGY SET.

9. MRS. OYMEN HAD SAID MARCH 17 PRIMARY TOPIC WITH BANKS WOULD BE QUESTION OF NEW FINANCING TO FILL BOP GAP. EXIM STAFF SAID BANKS LIKELY TO CONSIDER ARREARS OF MORE IMMEDIACY.

10. SOME BANKS IN CONTACTS WITH EXIM STAFF SAID WOULD BE DIFFICULT TO JUSTIFY EXTENDED TERM ARRANGEMENT WITHOUT LONGER-TERM BOP PROJECTIONS, COVERING PROPOSED TERM OF ARRANGEMENT. APPARENTLY IMF STANDBY IS BASED ON NO LONGER THAN 2-YEAR PROJECTION. STAFF ENCOURAGED CONFIDENTIAL

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GOT REPS. TO PREPARE EXTENDED PROJECTIONS. WOODWARD OF IMF INDICATED TO EXIM 7-YEAR PROJECTION LIKELY TO BE MEANINGLESS.

11. WOODWARD ALSO INTIMATED LITTLE HOPE FOR SUCCESS OF STABILIZATION PROGRAM WITHOUT CONCERTED EFFORT BY COM-

MERCIAL BANKS AND OFFICIAL LENDERS. BART OF IBRD INDICATED TO EXIM LITTLE LIKELIHOOD OF IMMEDIATE ACTION ON NEW LOANS UNTIL COMMERCIAL BANK SETTLEMENT REACHED.

12. THE MINISTER STATED TO CHAIRMAN MOORE HE WELCOMED EXIMBANK'S PROPOSAL FOR RESTRUCTURING THE DLRS 20 MILLION OF PAST DUE INSURED SHORT-TERM SUPPLIER CREDITS. HOWEVER, HE FELT IT WOULD CREATE A BAD PRECEDENT FOR THE RESTRUCTURING OF OTHER SHORT-TERM DEBT. ALL, HE THOUGHT, HAD TO BE ON 7-YEAR TERMS WITH THREE YEARS' GRACE. HE EXPECTED THAT THE TURKISH-AID CONSORTIUM, CHAIRED BY THE OECD, WOULD TAKE UP THIS ISSUE AS CONCERNS THE DEBT INSURED BY OFFICIAL EXPORT CREDIT AGENCIES. THIS SHORT-TERM DEBT WAS ESTIMATED AT DLRS 900 MILLION, WITH HERMES AND COFACE THE CHIEF CREDITORS. HE SAID THAT NEITHER OF THESE AGENCIES HAD BEEN CONTACTED DIRECTLY, TO DATE, ABOUT A RESTRUCTURING. THE AID CONSORTIUM WOULD ALSO BE EXPECTED TO MAKE NEW PLEDGES OF ASSISTANCE. HERMES HAS SUBSEQUENTLY NOTIFIED EXIM OF AN APPROACH BY A GERMAN BANK. HERMES REPORTED THAT THE BEST SOLUTION SEEMED TO BE A CONSOLIDATION OF TURKISH DEBTS IN THE FRAMEWORK OF A CREDITOR CLUB.

13. THE MINISTER RATHER JOVIALY STATED THAT WITH THE FUND AGREEMENT, EXIMBANK WOULD HAVE THE GREEN LIGHT TO PROCEED WITH THE MANY PROJECTS FOR WHICH TURKEY REQUIRED FINANCING.

14. CHAIRMAN MOORE RESPONDED THAT EXIMBANK WOULD FIRST HAVE TO STUDY THE IMF STANDBY, HAVE ALL THE FIGURES ON CONFIDENTIAL

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DEBT ARREARAGES, SEE WHAT OTHER CREDITORS WERE CONSIDERING, AND HAVE A SETTLEMENT OF CURRENT EXIMBANK ARREARAGES. HE EXPRESSED DISAPPOINTMENT THAT THE MINISTRY WAS UNABLE TO ACCEPT, AT LEAST AS AN INTERIM MEASURE, THE EXIMBANK PROPOSAL FOR RESTRUCTURING THE SHORT-TERM SUPPLIER CREDITS WHICH WOULD HELP REGULARIZE OUR RELATIONSHIP. THE CHAIRMAN SAID THAT IF THE TERMS AS PROPOSED PROVED UNREALISTIC IN LIGHT OF A CLEARER UNDERSTANDING OF ECONOMIC SITUATION, AND IN LIGHT OF WHAT OTHER CREDITORS WERE WILLING TO DO, EXIMBANK WOULD BE WILLING TO RE-EXAMINE THE TERM AND STRETCH IT OUT AT A LATER DATE IF THIS PROVED ADVISABLE. IF RESTRUCTURING ON A THREE-YEAR TERM SETS A BAD PRECEDENT FOR GOT IN SETTLING ARREARS WITH OTHER CREDITORS, MAYBE IT WOULD BE BETTER TO LEAVE IT AS IT IS, AND DISCUSS THE PROBLEM ON A MULTILATERAL BASIS. SINCE THE EXIM DEBT WAS ALL SHORT-TERM WITH PAYMENT TERMS OF CASH OR 180 DAYS, EXIMBANK COULD BE SEVERELY CRITICIZED FOR UNILATERALLY OFFERING LONGER REPAYMENT TERMS THAN OTHER CREDITORS WITH SIMILAR TYPES OF CREDITS. IN THIS REGARD, ROLLING

OVER THE CLDS ON A TWO-YEAR TERM MIGHT CREATE DIFFICULTIES FOR EXIM.

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15. THE CHAIRMAN EMPHASIZED THE INTEREST OF EXIMBANK AND THE U.S. GOVERNMENT IN TURKEY'S WELFARE AND APPLAUDED THE STABILIZATION MEASURES THAT HAD BEEN TAKEN. HE THOUGHT, HOWEVER, IT WAS TOO SOON FOR EXIMBANK TO BE CONSIDERING ANY NEW CREDITS FOR TURKEY. THE FIRST ISSUE WOULD BE TO CLEAR UP THE ARREARAGES. POSTPONING THIS UNTIL ACTION BY THE OECD CONSORTIUM COULD ONLY LENGTHEN THE PERIOD. EXIMBANK, HE STATED, MAINTAINS A STRONG INTEREST IN TURKEY, BUT IS CONSTRAINED BY ITS LEGISLATION. CONFIDENTIAL

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TIVE MANDATE ON WHAT CAN BE DONE. THERE MUST BE A FINDING OF REASONABLE ASSURANCE OF REPAYMENT. AS THE CURRENT ECONOMIC PROBLEMS ARE SOLVED, EXIMBANK WOULD RESUME ITS REVIEW OF PROJECTS, BUT ANY NEW COMMITMENTS WOULD TEND TO BE SMALLER AT FIRST. WE ASSUME GOT WILL ESTABLISH CAREFUL PRIORITIES.

16. FYI: FOREGOING TELEGRAM WAS DRAFTED BY EXIMBANK DURING WEEK MARCH 27; IT THEREFORE DOES NOT REFLECT DISCUSSIONS LIKELY OCCUR LATER THIS WEEK BETWEEN DEPARTMENT AND EXIM BANK TO FOLLOW UP ON DEPUTY SECRETARY'S DISCUSSIONS IN ANKARA MARCH 29. DEPARTMENT THEREFORE SUGGESTS EMBASSY DEFER ACTING ON BASIS THIS CABLE UNTIL FURTHER GUIDANCE PROVIDED. VANCE

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